

Economic Forecast

2010 GUAM-CNMI EDITION

Prospects for Imminent Military Build-Up Continue to Fuel Optimism About Guam Economy

Tourism Encouraging, Jobs Stabilizing, Inflation Low

Since it was first announced, anticipation of the military build-up on Guam, proposed to commence later this year, has created greater economic optimism on balance, although the mood of the local business and civic communities and policymakers has followed a roller-coaster ride.

In other facets of the Guam economy:

- Tourism is off to an encouraging start in 2010, with arrivals up nearly 15% in the first half of the year and prospects for further growth in 2011 and beyond.
- Employment shows signs of stabilizing and is expected to improve.
- The inflation rate has declined for three years now.
- The residential real estate market has continued to be slow, but is expected to end 2010 on a higher note. The status of the military build-up will affect the timing of demand for both commercial and residential property.
- Credit ratings have improved for the territorial government.

EXECUTIVE SUMMARY

2010 rolled in with improving consumer and business optimism on the prospects for Guam's economy. This optimism is evident in surveys of both business and consumer confidence conducted by me for the University of Guam-Pacific Center for Economic Initiatives. A survey of 43 local business owners and/or managers in April 2010

“Improved credit ratings reflect the confidence of local and foreign investors concerning future economic developments on Guam.”

showed 60% holding positive expectations for the Guam economy in the next 12 months. More than 52% of the 286 local consumers surveyed in May 2010 expressed positive views about income and employment prospects for the Guam economy in the next 12 months.

Many local residents have been reading and debating details of the proposed military build-up on Guam contained in the draft version of the U.S. Department of the Navy's Environmental Impact Statement (DEIS).

The first part of 2010 also saw intense discussions within Japan and between Japan and the U.S. on alternative locations for Okinawa's Futenma Air Base. In May, the decision was made to keep the base on Okinawa but to move it to a less populated area in the northeastern part of the island. This decision paved the way to addressing the 2006 Agreement between Japan and the U.S., including the much discussed Marine relocation from Okinawa to Guam. Soon after the 2006 Agreement was affirmed by former Japan Prime Minister Yukio Hatoyama, he resigned office and was replaced by current

Prime Minister Naoto Kan, who is also expected to reaffirm the Agreement.

U.S. implementation of the proposed military build-up appears to be progressing. The U.S. Department of Defense released the final Environmental Impact Statement (EIS) to the public in July. The Record of Decision on the proposed military build-up is expected in September and physical activity related to military build-up construction on Guam will commence a few months later.

Tourism, Guam's main economic driver, got off to a good start in the first half of 2010. The Guam Visitors Bureau forecast for the rest of 2010 through 2011 and possibly beyond is positive, with several markets (such as Korea, Hong Kong and China) seen to have strong promise. Positive factors include new air services connecting visitors more directly and/or affordably to Guam, changes in the new Guam-CNMI Visa Waiver Program and efforts by the Guam Visitors Bureau to rebrand Guam's image as a tourist destination and to emphasize the importance to visitors of the “experience” from their visit to Guam, including their experience of the local culture.

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ON PAGE 7

Commonwealth of Northern Marianas Continues to Face Economic Challenges

MACROECONOMIC ENVIRONMENT

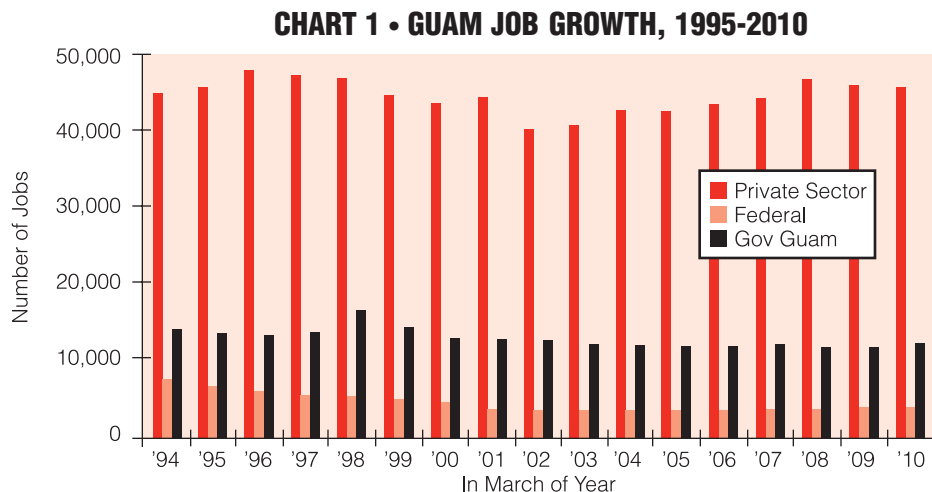
Gross Island Product (GIP)

Guam was approximately a \$4 billion economy in 2007, measured in real terms, according to the most recent estimates of GIP, released in May 2010 by the U.S. Department of the Interior-Office of Insular Affairs and U.S. Department of Commerce-Bureau of Economic Analysis. With an estimated population of 173,456 in 2007, this provided an estimated real annual income of almost \$23,000 per person.

The same estimates showed that, for the period 2002-2007, the Guam economy grew at an annual rate of 3.7% in nominal (current dollar) terms and 1.8% in real (constant dollar) terms. Over the same period, the population of Guam grew at an annual rate of 1.5%, thus yielding a per capita real income growth of 0.3% per year.

Forecasting Guam's GIP into the next five years would require estimates related to the impact of the military build-up. The estimates of economic benefits in terms of additional GIP presented in the DEIS have been met with criticism, with one study by the University of Guam-Pacific Center for Economic Initiatives showing these figures to be overstated (Ruane, January 2010). The newly introduced "Adaptive Program Management" approach to the military build-up on Guam is designed to pace construction so as to not overburden Guam's infrastructural capacity (U. S. Department of the Navy, July 2010). This suggests that the military build-up will occur more slowly than originally expected and will extend beyond 2014. Consequently, the annual increases in GIP will be lower than originally estimated.

Other bright spots in the Guam economy in recent years include the improving credit ratings of and outlooks on bonds issued by the Government of Guam (GovGuam) and other entities, including the Guam Power Authority (GPA). For example, GovGuam



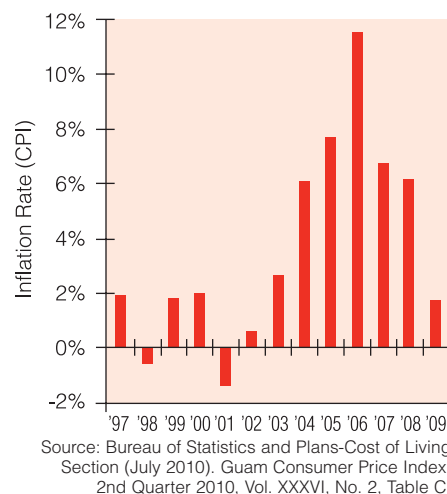
General Obligation Bonds, which were rated in May 2001 by Standard & Poor's as BBB- with a negative outlook, were upgraded periodically and rated B+ with stable outlook in October 2008, the last available rating.

These improved credit ratings reflect the confidence of both local and foreign investors concerning future economic developments in these entities, as well as the overall Guam economy. The most recent manifestation of this confidence was the sale of more than \$200 million of revenue bonds issued by the Guam Power Authority in June 2010. These bonds sold in New York in less than one hour. This positive outcome is consistent with credit ratings and outlooks for GPA's bonds provided by three rating agencies, Standard & Poor's, Fitch, and Moody's, all of which improved over a period of up to ten years.

Job Count Stabilizing

Employment on Guam (Chart 1) shows signs that it is apparently stabilizing. Based on latest figures (June 2010) available from the Guam Bureau of Labor Statistics' *Current Employment Reports*, total job growth was 3.23% compared to the same period of 2009. Private sector jobs increased 2.86% from one year earlier while job growth in the public sector, in both Federal and Government of Guam units, was 4.3%. As global conditions improve in coming

CHART 2 • GUAM INFLATION RATE (CPI), 1997-2009



years, affecting both tourism and real estate, and as the military build-up moves ahead later this year, job prospects on Guam are expected to improve.

Inflation Rate Declining

Guam's consumer price index (CPI)-based annual inflation rate in 2009 was 1.7%, the third year of decreasing inflation since 2006, when the rate was 11.6%. (Chart 2.) This is attributable to the favorable trends in energy prices in the recent years which significantly affect shipping costs for an import-dependent economy like Guam, as well as the energy costs borne by consumers and businesses. More importantly, the slowdown in the local economy in 2009

**CHART 3 • GUAM VISITOR ARRIVALS
JANUARY-JUNE, 2010**

	<u>Total</u>	<u>Change from Jan.-June '09</u>
Visitor arrivals	579,163	+14.6%
	<u>As % of total</u>	
Arrivals from:		
Japan	76.2%	
Korea	10.1%	
U.S. mainland	4.5%	
Taiwan	2.5%	
Other	6.7%	

Source: Guam Visitors Bureau, Visitor Arrival Statistics, June 2010 preliminary

has weakened overall demand, reducing the upward pressure on prices (Email communication with Albert Perez, July 2010). Despite a 200% increase in the tobacco tax, which became effective on April 6, 2010, inflation in the second quarter of 2010 remained manageable at 3.3% compared to one year earlier or 2.6% on a year-to-date basis.

Future forecasts of inflation will continue to take energy costs into consideration but, more significantly, will have to incorporate effects of the military build-up.

Tourism Encouraging in 2010

As Chart 3 shows, Guam's tourism industry is off to an encouraging start in 2010, with 579,163 visitors to Guam through June, a 14.6% increase from the same period of 2009. Compared to the same period of 2009, the strongest growth is among arrivals from Hong Kong (+132%), Vietnam (+92%), Thailand (+78%), China (+66%), and Korea (+56%). Charts 4 and 5 show tourism growth trends since 1990.

As expected, related measures of tourism activities on Guam are higher in 2010 as well. The weighted average of hotel occupancy rates (Chart 6) is 68% for January-June 2010, up from 60% in 2009 and 64% in 2008. The latest figure, for June 2010, shows hotel occupancy rates at 64%. Similarly, the weighted average of hotel room rates per night) is up at \$108 for January-June 2010 compared to \$103 in 2009. Hotel

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CHART 4 • GUAM VISITOR ARRIVALS, 1990-2009

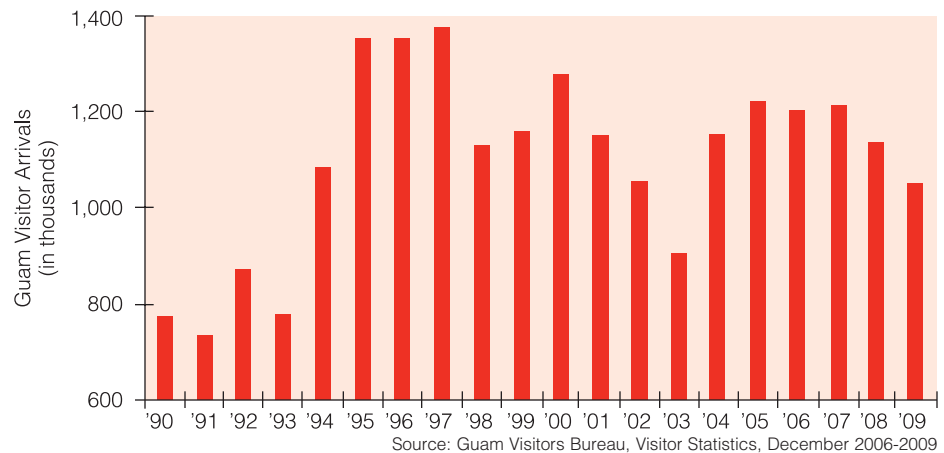


CHART 5 • ANNUAL CHANGE IN GUAM VISITOR ARRIVALS, 1991-2009

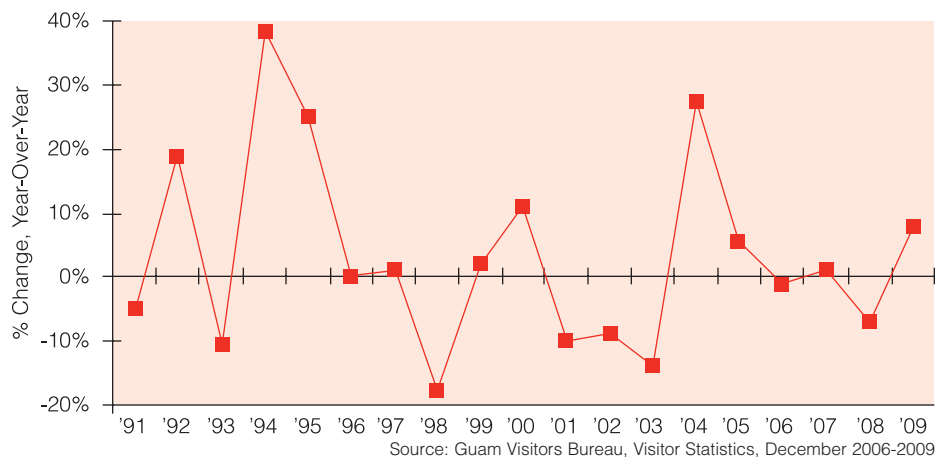
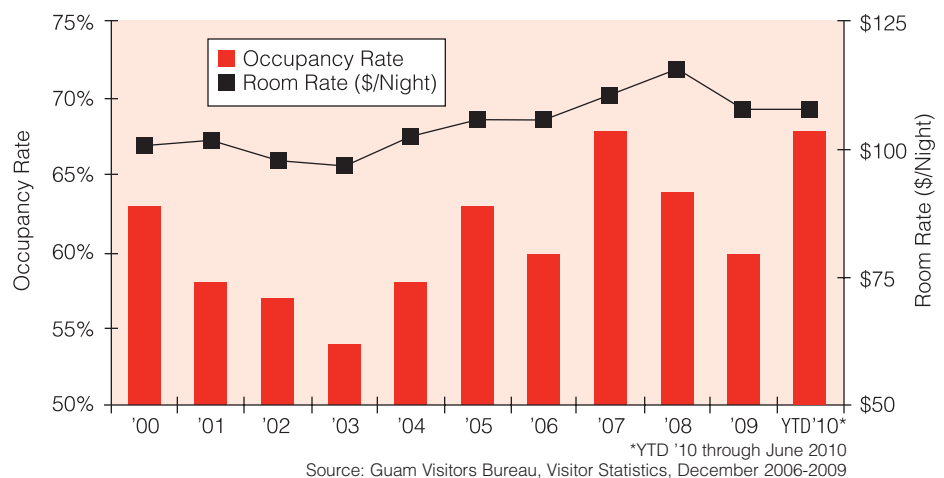


CHART 6 • GUAM HOTEL OCCUPANCY, ROOM RATES, 2000-10



Tourism Encouraging in 2010

(continued from page 3)

room rates averaged \$99 per night in June 2010 (Guam Hotel and Restaurant Association, June 2010).

Hotel occupancy tax collections are expected to be higher this year than in 2009. Gross receipt taxes paid by hotels during January-June 2010 rose 19% compared to the same period one year earlier. Similarly, room occupancy taxes through June 2010 were 13% higher than last year.

The trend toward a weakening dollar (Chart 7) works favorably to attract visitors to Guam. The U.S. dollar has weakened significantly against the Japanese yen since 2007, by 3% against the Korean Won in May 2010 compared to one year earlier, slightly against the New Taiwan Dollar and by 17.5% against the Chinese yuan since 2005.

Tourism is expected to continue its positive contributions to Guam's economy thanks to both the expected strengthening of the economies of Japan, Korea, Hong Kong and China (Chart 8) and the favorable impacts of Guam Visitors Bureau's market strategies and marketing efforts. Tourism's forecast is positive through 2011 and possibly beyond, with several markets indicating strong promise:

- Tourists from Korea can take advantage of more affordable flights from Incheon (Seoul) with the entry of a new low-cost airline, JinAir, into the Guam market in April 2010. One or more low-cost airlines are expected to operate between Korean cities and Guam in the future. Other contributing factors would include a stronger Korean won and the end of the H1N1 scare in Korea.
- The Hong Kong market offers promise with the addition of Hong Kong to the list covered by the Guam-CNMI Visa Waiver Program, which replaced the former Guam Visa Waiver Program in November 2009. In addition, direct flights between Guam and Hong Kong on

CHART 7 • EXCHANGE RATE (PER \$1) IN GUAM'S TOURIST MARKETS, 2005-10

May	Japanese Yen	Korean Won	New Taiwanese Dollar	Chinese Yuan
2005	107.82	1008.62	31.22	8.28
2006	111.62	947.87	32.02	8.02
2007	122.05	928.50	33.12	7.65
2008	105.41	1028.81	30.49	6.95
2009	95.15	1253.13	32.61	6.83
2010	91.90	1218.03	32.30	6.83

Source: <http://finance.yahoo.com>

CHART 8 • ECONOMIC GROWTH IN GUAM'S TOURIST MARKETS, 2008-12

	U.S.	Japan	Korea	Taiwan	China	Hong Kong
2008	0.4%	-1.2%	2.3%	0.7%	9.6%	2.1%
2009	-2.4%	-5.2%	0.2%	-1.9%	8.7%	-2.7%
2010*	3.3%	2.5%	5.2%	4.9%	9.6%	5.2%
2011*	2.9%	2.1%	4.6%	4.0%	9.1%	4.3%
2012*	3.0%	2.2%	n/a	n/a	n/a	n/a

*Forecast

Sources: U.S., Japan, World Bank (Summer 2010), Global Economic Prospects; Korea, Taiwan, China, Hong Kong, Asian Development Bank (2010), Asian Development Outlook

Continental Airlines resumed in April 2010, and charter flights between Guam and Hong Kong and China may be introduced in fall 2010.

- Furthermore, a favorable ruling by the U.S. Department of Homeland Security allowing tourists from China and Russia easier access to Guam would further assist overall tourism on Guam. Guam Visitors Bureau calculations show an additional 80,000 visitors from China alone over a period of three years would generate an additional \$132.3 million of annual income to Guam (Guam Visitors Bureau, February 3, 2010).
- The introduction of yet another low-cost airline, Australian-owned, Palau-based PacificFlier, in late June 2010 to provide easier access to Guam from Palau, Australia, Philippines and Japan. Services were interrupted in August pending regulatory approval from Koror, which the company is confident of obtaining this fall.
- Unfortunately, hopes for increased travel from Japan on direct scheduled flights from Haneda airport, in metropolitan Tokyo, will not materialize

this year. Continental Airlines' request for a direct route between Haneda and Guam was denied in July 2010. This, however, does not rule out the possibility of offering charter flights between Haneda and Guam (Duncan, August 19, 2010).

The Guam Visitors Bureau said in June 2010 that its "focus in 2011 will continue to be on key markets, development of the China opportunity, improvements in our destination product, and vigorous support of our community outreach and brand building initiatives." Efforts toward creating tourist attractions outside of the Tumon-Tamuning area into other villages (e.g., Banana festival in Talofofo in April, Mango festival in Agat in June), an additional night a week at Chamorro village, along with providing a stronger cultural experience to tourists through the "We are Guam" murals in different villages, the opening of Latte of Freedom/Hall of Governors in Adelup and the Hagatna Heritage trail have aided in strengthening overall tourism. The designation of March as "Chamorro Month" and May as "Tourism Month" is a clear signal that local policymakers and the community

recognize the major contribution that tourism makes toward the economy of Guam.

Other areas of opportunity on Guam would be the cruise ship industry, which is considered “... an underdeveloped tourism opportunity,” according to Guam Visitors Bureau General Manager Gerry Perez (Marianas Variety, May 7, 2010). It is also lucrative because cruise tourists are “premiere leisure travelers” who “spend nearly 50% more than non-cruisers.”

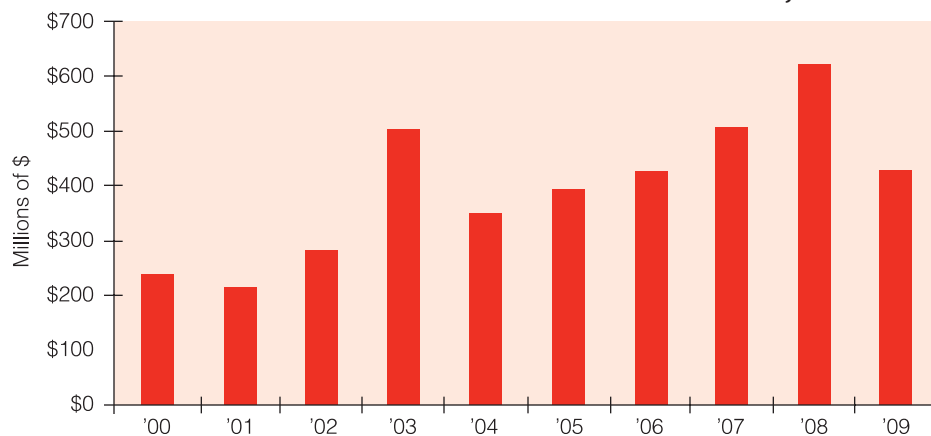
Military Build-Up Impacts

The signing of the “U.S.-Japan Alliance: Transformation and Realignment for the Future” agreement in 2006 created expectations of a military build-up on Guam over the 2010-2014 time period. The largest impacts will come from the relocation of Marines and their dependents from Okinawa to Guam, but the build-up will also include construction of a wharf in Apra Harbor to support a transient nuclear power aircraft carrier and construction of facilities and infrastructure to support the Army Missile Defense Task Force (U.S. Department of the Navy, 2009, page ES-1).

As 2010 approached, many developments have provided a better sense of what to expect from this build-up. Detailed information was contained in the U.S. Department of Navy’s draft of the Environmental Impact Statement (DEIS), which prompted more than 10,000 comments during the 90-day public review period. Release of the final EIS report in July 2010 is being followed by another review period, leading to a Record of Decision expected in September 2010. When this is approved, and with no substantial litigation issues, military projects related to the build-up can begin.

Between January and June 2010, \$257.1 million of military contracts on Guam were awarded. This amount includes base operation contracts. (Charts 9 and 10 show the recent history of military contracts, as well

CHART 9 • GUAM MILITARY CONTRACTS AWARDED, 2000-09



Source: <http://www.usaspending.gov>, retrieved on July 1, 2010

CHART 10 • GUAM MILITARY CONTRACTS & BASE OPERATIONS, 2010-14 (IN MILLIONS OF \$)

Year	Military Contracts	Base Operations
2010	\$524	\$4.70
2011	\$1,302	\$8.70
2012	\$2,213	\$9.40
2013	\$2,722	\$9.90
2014	\$2,806	\$47.80

Source: U.S. Department of the Navy, DEIS, Volume 9, Appendix F, Tables 4.3-35 and 4.3-37

as forecasts through 2014.)

The final EIS introduced the “Adaptive Program Management” approach to the military build-up, which suggests a pacing of military construction and population increases according to the capacity of Guam’s infrastructure. This approach suggests that the time-frame of the build-up may extend beyond 2014, although recent comments from Japan continue to refer to the 2010-2014 timeframe.

To date, military build-up projects have been awarded to large and small companies alike. In March 2010, the Guam Small Business Multiple Award Construction Contract, with a value of each up to \$500 million, was awarded to six contractors (JGPO, no date). Although only one Guam-based small business received this type of award, many local small businesses see opportunities in the military build-up

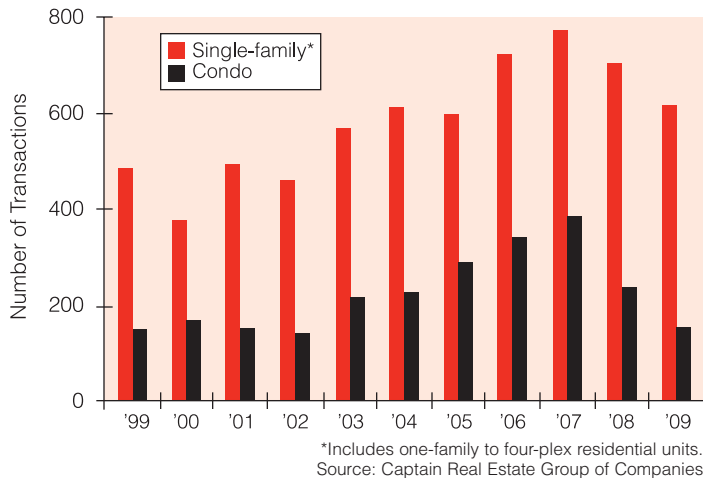
as sub-contractors in construction projects awarded to larger companies.

Other local businesses also look forward to serving the larger military and civilian population projected to be on-island during the military build-up. Local small businesses and the institutions that support them (U.S. Small Business Administration, Guam Small Business Development Center, Guam Procurement Technical Center, Guam Trades Academy) have teamed up to pursue these opportunities. In May 2010, the Naval Facilities Engineering Command Pacific announced having awarded a \$4 billion multiple award construction contract to seven companies for construction projects on Guam and in other areas in the Pacific.

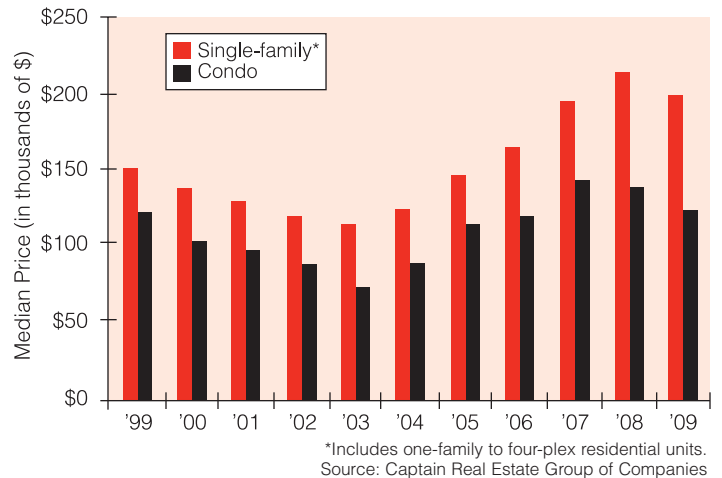
Guam residents are reviewing the final version of the EIS to see how the most contentious issues from the DEIS were resolved. The U.S. Department of the Navy has committed to working with the local community to find mutually acceptable alternatives to some of these issues, consistent with a “One Guam” approach, captured in the statement: “What is good for Guam will be good for the military” (U.S. Department of the Navy, July 2010). An example is a definitive statement that local workers will be the first considered for military build-up jobs. The U.S. Department of the Navy has also committed to a unified utilities

—continued on page 6

**CHART 11 • GUAM REAL ESTATE
NUMBER OF TRANSACTIONS, 1999-2009**



**CHART 12 • GUAM REAL ESTATE
MEDIAN PRICES, 1999-2009**



Military Build-Up Impacts

(continued from page 5)

arrangement which will be funded by Japan's pledge of \$740 million for infrastructure development, originally conceived to take place on base.

Real Estate Growth Expected

Real estate transactions on Guam peaked in 2007, with 774 units of single-family dwellings and 388 condominiums units sold. Since then, the market has slowed.

In the first quarter of 2010, Captain Real Estate Group of Companies reported that 135 units of single-family dwellings sold. As anticipated by company president Nick Captain, the total increased in the second quarter — to 160 units sold. For condominiums, Captain reported 48 units were sold in the first quarter of 2010, increasing by 20% in the second quarter. Captain attributed the decline in transactions in the first quarter of 2010 to “the on-going confusion and mixed signals from Japan regarding the military build-up.”

Chris Felix, president of Century 21 Realty Management, made a similar observation in May, saying that “(w)e are in a ‘holding pattern’ waiting for two main things to happen”, namely, the decision on the relocation of Futenma Air Base and the final version of the U.S. Department of Defense's Environ-

CHART 13 • GUAM MORTGAGE CLOSING TRENDS, MARCH 2008-10

	Mortgage values closed	% Change	Mortgage transactions
March 2008	\$41,156,096.00	n/a	186
March 2009	\$34,142,800.18	-17.04%	181
March 2010	\$30,173,800.00	-11.62%	163

Source: Pacific American Title, Monthly Mortgage Closings, various months

mental Impact Statement on the U.S. military build-up on Guam and Tinian.

Median prices for single-family dwellings peaked at \$215,000 in 2008 and for condominiums at \$144,850 in 2007, then showed a decline until the first quarter of 2010 when Captain reported a new peak median price of \$221,000 for single-family dwellings. Captain's forecast for the second quarter of 2010 is \$210,000. The median condominium price for the first quarter was \$135,500 for condominiums. Captain's second quarter forecast for median condominium prices is \$120,000.

A year-on-year comparison of mortgage closings (Chart 13) shows that both the dollar amount and number of mortgage closings have been decreasing over the past three years. Whereas \$41.2 million in mortgages closed in March 2008, only \$30.2 million closed in March 2010. More recent (May 2010) data on real estate financing show declines in both the number of transactions (to 117) and amount (\$30.0 million).

After second quarter figures came in, Captain expressed confidence that real estate sales are on track to end this year 20% higher than in 2009. (Captain, Guam Market Update, August 2010.)

In May 2010, Felix optimistically predicted that, once the EIS for the military build-up is finalized, there will be a “tremendous increase in real estate values starting next year (2011) and continuing for the next three to five years.” He expects the residential properties at the level of “middle and upper managers” to be impacted first, as these managers “move to Guam related to set up construction and support projects.” Two to three years later, Felix projects increases in home prices for blue-collar workers and executives.

Regarding commercial real estate, Felix projects warehouse values and rental rates to increase “from next year (2011) for at least the next three years” as a result of the higher demand for “warehousing space, yard space and office space” by contractors once they are awarded their military contracts.

Commonwealth of Northern Marianas Continues to Face Economic Challenges

The Commonwealth of the Northern Marianas Islands (CNMI) continues to face economic challenges. Its economy has yet to return to its business peak in 1997 and the economic trends since, and over the past five years in particular, have not been positive. Looking ahead, economic prospects through 2014 appear to lack promise as well.

The cost and uncertainty of doing business in the CNMI have increased while opportunities, including those associated with the military build-up on Guam and Tinian, are considered limited. Shipping costs, which had always been high, doubled in the aftermath of the end of the garment industry in March 2009 (Sablan, July 2010).

In addition to higher shipping costs, labor costs have increased quite significantly since 2007 as a result of minimum wages in the CNMI being harmonized with the U.S. Federal level by 2015.

Federalization Law

The implementation of the Federalization law on Nov. 28, 2009 created greater uncertainty for many businesses operating in the CNMI. The law now applies U.S. immigration law to CNMI, with implications for visa requirements for tourism and foreign investments as well as visa requirements and quotas that apply to the hiring of foreign labor.

For example, the Guam-CNMI Visa Waiver Program replaced CNMI's former visa program in November 2009. The CNMI benefits significantly from tourists and foreign investors from China and Russia, countries which are currently not included in the Guam-CNMI Visa Waiver Program. Fortunately for CNMI, the parole status to visitors from these nations

CHART 14 • BROAD ECONOMIC INDICATORS FOR THE CNMI

Gross Island Product (GIP)	2002	2007	% change (2002-07)	Annualized growth rate
Nominal measure (millions current \$)	1,320	962	-27.12%	-6.13%
Real measure (millions constant \$)	1,197	967	-19.21%	-4.18%
	2005	2009	% change (2005-09)	Annualized growth rate
Business Gross Receipts (millions \$)	\$2,020.	\$1,552.	-23.17%	-6.38%
Government General Expenditures (millions \$)	\$224.1	\$168.1	-24.98%	-6.93%
Consumer Price Index, all items*	83	105.6	27.23%	6.21%

CPI Base = fourth quarter 2008; growth between fourth quarter 2005 and fourth quarter 2009

Sources: GIP from U.S. Department of Commerce-Bureau of Economic Analysis, released May 5, 2010.

All other indicators from CNMI Department of Commerce, Economic Indicators, third and fourth quarters 2010.

could be extended on the discretion of the secretary of the U.S. Department of Homeland Security (DHS).

Visa requirements for hiring foreign workers are also affected by the Federalization law, which will terminate the CNMI-only "CW" visa after December 31, 2014, unless extended. The change will make it harder for foreign workers to get in to the CNMI, affecting all industries including tourism. Requirements for H2 worker visas are now subjected to national quotas set by the U.S. Federal government, although exemptions will be extended to Guam and Tinian to facilitate the proposed military build-up on Guam and Tinian through 2014.

The increasing costs and uncertainty faced by businesses in the CNMI are hardly balanced by the lack of opportunities available to them. Although businesses, many of which are based in Saipan, viewed the military build-up on Guam and Tinian positively before the release of the DEIS, the Saipan Chamber of Commerce now appears less optimistic. On the other hand, the CNMI Department of Commerce holds a more positive view on the proposed military build-up on Guam and Tinian (Ada, November 2009).

CNMI Economic Indicators

Chart 14 shows decreasing overall economic activity in the CNMI. Estimates show an annual Gross Island Product (GIP) decline of more than 6% in nominal terms and more than 4% in real terms from 2002-2007.

The same unfavorable trend is evident in several other economic indicators over the more recent time period of 2005-2009. The lower part of Chart 14, based on data from the CNMI Department of Commerce, shows that Business Gross Receipts, a measure of the value of sales on CNMI, have decreased over 6% per year since 2005. Similarly, government general expenditures declined almost 7% per year over the same period. The chart also shows the cost of living, as measured by the change in the Consumer Price Index (CPI) for all items sold in the CNMI, increased more than 6% per year between 2002 and 2009.

One gets a similar picture when looking at different segments of the overall CNMI economy between 2005 and 2009. Chart 15 (next page) shows that, with the exception of construction activities for government projects, all other activities declined in the past four years. The extent of

—continued on page 8

Commonwealth of Northern Marianas *(continued from page 7)*

the decline was worse in some areas (for example, garment exports declined from \$650.8 million in 2005 to \$3.14 million in 2009) than others (for example, sales of used cars).

For years, CNMI's garment industry enjoyed favorable treatment under the Multi-Fiber Agreement (also known as the Agreement on Textile and Clothing), which expired in January 2005, thereby opening up U.S. garment markets to manufacturers in developing countries, most notably China. It was just a matter of time when the garment industry in the CNMI would not survive competition from much lower-cost manufacturers. That time came in March 2009 when the last three garment factories in the CNMI closed down, ending a once-dominant industry while also increasing shipping costs to many businesses that operate in the CNMI (interview with Brennan, June 2010).

CNMI Tourism

With the end of the garment industry, tourism became the predominant source of economic activity in the CNMI. Unfortunately, prospects for tourism are not encouraging. Visitor arrivals have been declining, due to several factors including the cancellation of flights by Japan Airlines in 2007, the higher cost of airfares due to the higher cost of fuel and airlines focusing on higher-yielding routes (DOI, April 2010; interview with Torres, June 2010).

The extent of the challenges faced by CNMI tourism is shown in Chart 16. Whereas more than a half million tourists visited the CNMI in 2005, visitor arrivals were down by 30% to 353,956 by 2009 — equivalent to an 8.58% annual decline.

Chart 16 shows that visitors from Japan to the CNMI, who made up 54% of total visitors in 2009,

CHART 15 • STATISTICS ON DIFFERENT ECONOMIC ACTIVITIES IN THE CNMI

	2005	2009	% change (2005-09)	Annualized growth rate
Banking (millions \$)				
Total Deposits	\$523.7	\$445.4	-14.95%	-3.97%
Total Loans	\$193.8	\$127.7	-34.10%	-9.90%
Auto Sales (units)				
New	1,555	306	-80.32%	-33.40%
Used	330	304	-7.88%	-2.03%
Construction				
Number of Permits	350	120	-65.71%	-23.48%
Value (millions \$)				
Commercial	\$19.94	\$2.77	-86.11%	-38.95%
Residential	\$8.95	\$3.53	-60.56%	-20.75%
Government*	\$2.21	\$9.94	349.77%	112.08%
Garment Exports (millions \$)	\$650.80	\$3.14	-99.52%	-73.64%

*Data not available until 2007; growth rate between 2007 and 2009

Source: CNMI Department of Commerce, Economic Indicators, third and fourth quarters 2010

CHART 16 • CNMI TOURISM TRENDS, 2005-09

Tourism	2005	2009	% change (2005-09)	Annualized growth rate	% share of 2009 total
Visitors Arrival, total	506,846	353,956	-30.16%	-8.58%	
from Japan	351,739	191,111	-45.67%	-14.14%	53.99%
from Korea	69,952	89,132	27.42%	6.24%	25.18%
from U.S.	14,821	11,143	-24.82%	-6.88%	3.15%
from Guam	22,845	18,116	-20.70%	-5.63%	5.12%
from Hong Kong	2,810	—	na	na	na
from China	32,920	29,814	-9.43%	-2.45%	8.42%
from Philippines	2,381	1,960	-17.68%	-4.75%	0.55%
from Russia	628	6,222	890.76%	77.42%	1.76%
from Taiwan	2,588	418	-83.85%	-36.61%	0.12%
Hotel occupancy rates	70.0%	60.7%	-13.29%		
Hotel room rates (\$ per night)	\$83.00	\$95.22	14.72%		

Sources: Visitor Arrivals, total and by country taken from Marianas Visitors Authority, Visitors Arrival Statistics, CY 2004-2009. Hotel occupancy and room rates taken from CNMI Department of Commerce, Economic Indicators, 3rd-4th Quarter 2009.

decreased by more than 45% from 2005-2009 — or around 14% per year. Helping to mitigate the effect of that decrease were visitors from:

- Korea, up 27% from 2005-2009 (or 6.24% per year) and
- Russia, up 890% from 2005-2009 (or 77.42% per year), thus representing the most promising tourist market for the CNMI. Although Russian visitors accounted for only

1.76% of total visitor arrivals in 2009, they are considered a higher-yield customer base because they stay longer and spend more per day than tourists from other markets (interview with Calabrese and Brennan, June 2010; interview with Torres, June 2010).

Fortunately for the CNMI, although the Guam-CNMI Visa Waiver Program (mentioned above)

does not extend to visitors from Russia and China, the parole status could be extended at the discretion of the secretary of the DHS, especially in light of the “significant economic benefits” that these visitors contribute to the overall CNMI economy.

The decline in visitor arrivals is also evident in hotel occupancy rates, which decreased from 70% in 2005 to 60.7% in 2009. The increase in hotel room rates per night from \$83 in 2005 to \$95.22 in 2009, which seems odd given the slower demand for hotel rooms, reflects some hotel businesses’ efforts to recoup their costs of renovation and, for all hotels, their attempts to compensate for the higher costs of operation, including fuel, shipping, food and labor (Email communication with Daly, July 2010). Of course, hotel businesses are concerned that these higher room rates would reduce visitor arrivals to the CNMI by 2.6% to 13.7%, according to a study by the U.S. General Accountability Office (GAO, April 2010).

The increases in minimum wages since July 2007, a precursor to the implementation of the Federalization law in November 2009, have significantly raised labor costs in the tourism sector as well as all other businesses in the CNMI. From an hourly rate of \$3.05 in July 2007, minimum wages increased \$0.50 in July 2007 and on May 25, 2008 and 2009. That makes the current CNMI minimum wage \$4.55.

In December 2009, the U.S. Congress delayed the date of minimum wage increases from May 25 to September 30 beginning in 2010 and in subsequent years until CNMI’s minimum reaches the U.S. Federal rate (currently \$7.25 per hour) (Email communication with Calabrese, July 2010).

The Federalization law also affects hiring of foreign workers which, since November 2009, is subject to U.S. Federal immigration laws, although the CNMI “CW” visa category will continue in decreasing numbers until

CHART 17 • CNMI BUSINESS CONFIDENCE—BUSINESSES’ EXPECTED PERFORMANCE IN THE NEXT 12 MONTHS
(in % of respondents, except for “Mean” and “Responses”)

	Capital Expenditures	Employment	Sales	Inventory	Profits
Mean (4=best, 1=worst)	2.63	2.56	2.52	2.64	2.33
Positive					
4 (Better than this year’s)	25.93%	7.41%	12.00%	12.00%	37.04%
Neutral					
3 (Same as this year’s)	33.33%	59.26%	44.00%	52.00%	37.03%
Negative					
(sum of next two rows)	40.74%	33.33%	44.00%	36.00%	55.56%
2 (Worse than this year’s)	18.52%	14.81%	28.00%	24.00%	37.04%
1 (Much worse than this year’s)	22.22%	18.52%	16.00%	12.00%	18.52%
Responses	27	27	25	25	27

Source: University of Guam-Pacific Center for Economic Initiatives, Business Confidence Survey in the CNMI, June/July 2010

2014, with possibility of extension. Additionally, an exemption from U.S. quota on H2 worker visas has been established in order to facilitate the proposed military build-up on Guam and Tinian through 2014. Opinions expressed by the GAO and DHS prior to the release of the final EIS suggest no extension will be considered on the H2 visa quota waiver (Email communication with Calabrese, July 2010). It would be interesting to see how these opinions would change in light of the “Adaptive Management Program” approach discussed in the final EIS, which would likely extend the military build-up in the region beyond 2014.

Business Confidence on CNMI

Faced with increasing costs and uncertainty, businesses in the CNMI predictably lack optimism and foresee lackluster prospects for the future. A University of Guam-PCEI survey of 27 owners and/or managers of CNMI-based businesses in June and July 2010 (Chart 17) showed that:

- 40.74% expect their company to fare worse in the area of capital expenditures,
- 44% expect their sales in the next 12 months to be worse or much

worse than current levels, and ■ 55.56% expect their profits in the next 12 months to be worse or much worse than their current levels.

The same survey (Chart 18, next page) shows that 52% of the respondents expressed negative views concerning prospects for the industry in which they operate in the next 12 months. The most telling result of the survey is that 76.92% of the business owners and/or managers expect negative prospects for the overall CNMI economy in the next 12 months. This is not surprising since the one area of hope to jump-start the CNMI economy was the proposed military build-up on Guam and Tinian. Unfortunately, after reviewing the DEIS, many businesses expect it to have a minimal beneficial effect on CNMI’s economy, especially in Saipan (Saipan Chamber of Commerce, February 17, 2010).

On the other hand, the CNMI Department of Commerce, which houses the Military Integration Management Committee (MIMC), holds a more positive view on the proposed military build-up on Guam

—continued on page 10

**CHART 18 • BUSINESSES' PROSPECTS FOR THE INDUSTRY
AND THE CNMI ECONOMY IN THE NEXT 12 MONTHS**
(in % of respondents, except for "Mean" and "Responses")

	Prospects for Industry	Prospects for CNMI Economy
Mean (4=best, 1=worst)	2.44	1.88
Positive 4 (Better than this year's)	12.00%	3.84%
Neutral 3 (Same as this year's)	36.00%	19.23%
Negative (sum of next two rows)	52.00%	76.92%
2 (Worse than this year's)	36.00%	38.46%
1 (Much worse than this year's)	16.00%	38.46%
Responses	26	26

Source: University of Guam-Pacific Center for Economic Initiatives, Business Confidence Survey in the CNMI, June/July 2010

Commonwealth of Northern Marianas (continued from page 9)

and Tinian. Its document entitled "CNMI's Military Planning Approach" states that its positive view begins with a shift in mindset from "CNMI vs. Guam", "CNMI vs. Military" and/or "CNMI & Guam vs. Military" to a more pro-active approach of "CNMI+Guam+Military = Community" (Ada, November 2009).

In the last year, the CNMI Department of Commerce has led the community to explore ways to

revive growth in the CNMI economy. Such efforts led to the identification of growth areas in agriculture, aquaculture, educational services catering to foreign students and call centers, as well as working toward making sure that infrastructure is in place to facilitate these growth areas. Other developments aimed at strengthening opportunities for local businesses include the establishment of the Small Business Development Center in Saipan in June 2010 and the hiring of the coordinator for the MIMC in early 2010.

Note on Economic Statistics

Noteworthy in 2010 is the increasing availability of economic indicators, which assist in forecasting prospects for Guam's economy. Thanks to the collaboration between the U.S. Department of Commerce-Bureau of Economic Analysis and the U.S. Department of the Interior-Office of Insular Affairs, estimates for Guam's broadest economic indicator, the Gross Island Product (GIP) for 2002-2007 were released in May. Preliminary estimates for 2008 and 2009 are expected late this year or early in 2011.

This year also saw the release of the 2008 Guam Statistical Yearbook by the Guam Bureau of Statistics and Plans, which continues to contribute other useful economic indicators such as Consumer Price Index and Export and Import statistics, and plans to estimate additional economic indicators. The Bureau of Labor Statistics keeps an updated picture of the employment situation on Guam with its regular release of *Current Employment Reports*. It also released the *May 2009 State Occupational Employment and Wage Estimates Report*.

Assisting also toward the generation of useful economic indicators is the University of Guam-Pacific Center for Economic Initiatives, which has generated a series of semi-annual business and consumer confidence surveys, along with other technical reports on issues relevant to Guam's economic development such as income distribution, Federal contracting, revitalization of Hagatna, Guam's spending multiplier, and a prospective economic development strategy for Guam (i.e., the Pacific Tiger strategy).

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—continued on page 12

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